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VOLUME 19, ISSUE 6
December, 2005

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TAXATION

Home Sweet Home

With low mortgage rates and rising home values, real estate continues to be an attractive investment whether you own and live in your home, rent out a portion or all of it, or own rental property.



If you are thinking about renting out your home, a portion of it, or acquiring another property to use as a rental unit, plan to talk to your chartered accountant. You need to consider the tax treatment of the income earned from the rent, the impact on the principal residence status of your property, and the planning options available to you for minimizing taxes.

Principal Residence

Home sweet home. Whether your principal residence is a house, an apartment, a unit in a duplex or condominium, a cottage, a mobile home, a trailer or a live-aboard boat, when you sell your principal residence, any gain is generally tax-free.

For tax purposes, you can designate only one property as your principal residence for a particular taxation year. You must own the property and you, or spouse or common-law partner, former spouse or common-law partner or child must ordinarily live in the home in the year.

Of course, if you move during a taxation year, you have two residences in the same year since you are selling one home and acquiring your new home in the same year. While both properties qualify as a principal residence for that year, only one of them may be designated as such for that year. However, there is a "1+" factor in the formula that exempts the gain that helps ensure that the gain on both properties will not be subject to tax.

Keep in mind, though, that living in a house that you own does not automatically qualify it as a principal residence. For example, if you are a renovator or builder and live in a home a short time, the gain on the sale of the home may be treated as business income.

Renting Out a Portion of Your Home

If you rent out a portion of your residence, it does not lose its status as your principal residence. For example, you may decide to rent a room to a student or convert a basement or other

area into an efficiency apartment. However, you may not claim capital cost allowance (CCA), which is depreciation for tax purposes, on the portion of your residence that you have rented out.

Renting Out Your Entire Home

If you decide to rent out the entire residence you own and live in, the change of use rules will apply. When you begin renting out your residence, you are deemed to have disposed of it at fair market value and to have reacquired it immediately at the same price. If this value exceeds your original cost, you may have to report a capital gain to the extent it exceeds the principal residence exemption. If you cease to rent the property and move back into it, there will be another change of use at that time but, in this case, any capital gain for the period the home was rented would not qualify for the principal residence exemption.

Maintaining Principal Residence Status

A special election can be made not to have the change of use rules apply at the time you commence to use the property as a rental property. In this case, there is no capital gain to report either when you move out or at the time you re-occupy the property. This election allows you to move out and rent your home and still continue to treat the house as your principal residence for up to four years and possibly more.

A common situation is where your employer wants you to relocate. You may decide that rather than sell your home, you would like to rent it out so you can return to it some day. This means you do not have to report any capital gain when you change its use.

If you make this election:

- You have to report the rental income you earn; and
- You cannot claim capital cost allowance (CCA) on the property.

While your election is in effect, you can designate the property as your principal residence for up to four years, even if you do not use it as your principal residence for this time. However, you can only do this if you do not designate any other property as your principal residence for this time.

There is no immediate effect on your tax situation when you move back into your residence because the election deems the property to always have been held for personal purposes.

You may be able to extend the four-year limit where all of the following conditions are met:

- You live away from your principal residence because your employer (or your spouse's or common-law partner's employer) wants you to relocate;
- You and your spouse or common-law partner are not related to the employer;

- You return to your original home while you (or your spouse or common-law partner) are still with the same employer or before the end of the year after the year in which this employment ends (or you die during the term of employment); and
- Your original home is at least 40 kilometres farther than your temporary residence is from your new place of employment.

Before You Become a Landlord

Talk over your plans with your chartered accountant. You can deduct expenses like property tax, heat, water and electricity — but the rest of the rental income is taxed at your regular rate. If you rent out a secondary property such as a condo or house, the same tax rules will apply to your rental income but when it comes time to sell the property, the appreciation of capital gains over the original purchase price will be subject to capital gains tax.

Of course, you also need to consider many other factors. You are well advised to talk to your lawyer about the lease and the applicable tenant protection laws. Investigate the municipal laws to make sure that your rental unit meets all required fire, building and housing standards. And talk to your insurance representative to ensure you have sufficient coverage for such things as theft and damage by tenants. □

FINANCES

Dividends

When looking for investment opportunities, many individuals invest in the common stock of public

companies in the hopes of earning dividend income and perhaps making capital gains.

Over the past few years, dividend income has been more lucrative than the low-interest returns of fixed-income securities such as bonds. Public companies like to keep their investors happy and nothing makes investors happier than receiving a reasonable return on their investment.

However, investors are sometimes attracted to a stock solely because of the high-yielding dividends without carefully considering other factors that could cause a company to reduce its dividends in the future. In making the decision whether to invest in the stock of a company, be sure to talk to your broker as well as examine the company's financial reports and other information.

While dividends may currently bring more favourable returns than, say, interest earned on GICs, your initial investment is not guaranteed and the dividends may be reduced in the future. On the other hand, there are many companies that pay good dividends while your stock continues to appreciate in value.

Dividend Payout

The dividend payout ratio (also called the cash flow measurement) is used by investors to determine if a company is generating sufficient cash flow to provide a steady stream of dividends to them. To calculate this ratio, divide the total annual dividend payments by the annual net income plus noncash expenses minus noncash sales.

However, one year is not a reliable indication of future performance. You need to look at the trend line of the ratio for several years to determine if there is a pattern of decline or increase.

Consider that if the dividend payout ratio is always high, when earnings drop it will be difficult for the company to sustain that level without compromising its working capital. If dividends drop, the adverse publicity may cause a drop in value of the stock. In addition, a company that provides a large increase in its dividends over a relatively short period of time, say a year or two, may not be able to sustain this over the long term.

Also consider the company's past dividend policy. Generally, the longer a company has been paying steady dividends, the more likely it will continue to do so.

Working Capital

If a company pays out a significant amount of its working capital in dividends, it will likely have to borrow to finance future operations or capital asset expansion. Similarly, a company with good profits and little working capital that continues to pay high dividends may have to increase its borrowings.

Look for any unusual increase in either short-term or long-term debt. Keep a careful eye on the balance sheet to determine the need for capital expansion.

Growth

Without steady growth, a company's future may be eroded by increases in product cost and inflation. If a company is not growing by at least the rate of inflation plus 2 or 3%, it may not be able to sustain its dividend payment history. Historically, companies that are able to cope with the changes in market conditions are usually able to maintain a lowered but consistent ability to pay dividends.

Tried and True

If dividends are an integral part of your portfolio, the longevity of a company is an important consideration. Longstanding financial institutions such as banks tend to support the logic of staying with the "tried and true" when it comes to dividend earnings.

Of course, the other tried and true is diversification. Selecting stocks from many different industries will help protect your investments from the ups and downs of any one sector.

Tax Considerations

Investments should not be made strictly for the tax advantages; however, the tax treatment of dividend income is worth mentioning as dividend income is taxed differently than interest income earned.



• Investments

Suppose an individual receives a dividend of \$1,000 from XYZ Ltd. The dividend is increased (grossed up) for tax purposes by 25%. Thus the \$1,000 becomes \$1,250 for tax purposes. The tax rules then permit a federal dividend tax credit to be deducted from the federal taxes payable on the dividend. The provinces also provide a dividend tax credit. The end result is that the combined tax on a dividend is substantially less than the taxes that would be applied to ordinary investment income.

• RRSP Investments

Should the dividends be paid into an RRSP, the income tax on the dividend income is deferred until the RRSP is withdrawn. However, when the dividend is withdrawn from the RRSP, it loses its character and is taxed as ordinary income without the benefit of the gross-up and dividend tax credit.

Before Investing

The decision to invest in a stock requires careful consideration of several aspects of the company. Discussions with your broker about the company combined with input from your chartered accountant about the tax implications of your investment strategy can help you build a strong financial future. n

Winning Presentations

Presentations are an important part of doing business. Whether the purpose of the presentation is to introduce people to the benefits of your company's products and services or close sales, with careful planning you can prepare a presentation that will achieve your goals.

The real substance of a presentation is what you say and how you say it. This requires clearly setting out your objectives, planning and organizing your materials and choosing the right visual aids to reinforce your message.

Here are a few practical tips that can help you prepare and deliver a smooth professional presentation.

Objectives

Clearly set out your objectives for the presentation. This is the foundation on which you should develop and organize your outline, content and visual aids.

Presentation Setting

If you are renting a presentation site or going to a client's premises, it is important to find out as much as possible about the venue ahead of time. Knowing the location, room, shape and size of tables and the set up for the audience will help you decide on the types of visuals you will use and the formality or informality of your presentation. For instance, your presentation may require a lectern at the front with rows of chairs or you may need round tables with seating to facilitate group discussions.

Audience

How many individuals will attend? Who are they and what are their roles and responsibilities in the organization? What are their interests? Most important, who is the key decision-maker? This is the person in the audience you will have to sell.

Outline

Before writing your presentation, prepare an outline of your goals, the major points to be discussed and the information you need to present. This will help you organize your thoughts, meet timing requirements and ensure you cover all the key points. If you have provided the client with a written proposal prior to your presentation, the key selling points in that document will be the basis of your outline.

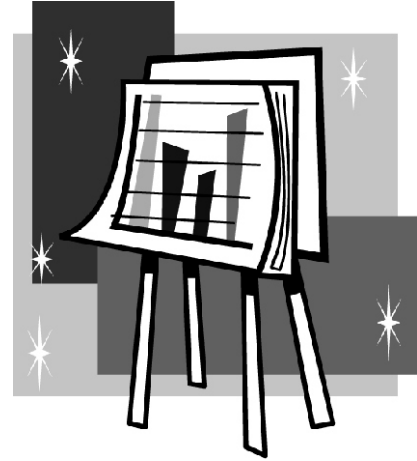
A well-known approach to organizing your materials is to tell them what you are going to tell them, tell them, and then tell them what you have told them.

Visual Aids

Visual aids are an important part of most presentations. Well-designed ones will reinforce your key points and help your audience follow your talk. High quality visuals also demonstrate your professionalism — they show that you are willing to put in the extra time and effort needed to prepare these important aids. However, effective visuals need not be expensive, particularly with the many software programs available for creating professional-looking slides or overheads.

Before deciding on what visual aids you will use, make sure they are appropriate to the presentation setting.

Whatever format you use for your visuals, keep them as simple as possible. If they are too wordy or complex, your audience will spend their time reading them and not



listening to you. They should be designed to help your presentation, not hinder it. The visuals should include the key points that you want the audience to remember.

Handout Materials

The purpose of handouts is to keep the presentation fresh in your audience's mind — a memory jogger that reinforces your key sales points — after you leave the room. They also provide a convenient place for your listeners to make notes.

Here are some tips for creating effective handouts:

- Mirror the visual aids to assist the audience in recalling the key points.
- Summarize the concepts presented. If you need to provide detailed information, consider referencing an appendix and provide it as a separate handout.
- Leave space for note taking.
- Use a large font for easier reading. Be consistent in the use of bullets, numbers, italics and upper and lower case. If each section includes a conclusion, use italics or boldface to emphasize it.
- Package the handouts as professionally as possible. While bound leave-behinds do look smart, it

may be more practical to use a folder treatment with loose pages. This will allow you to insert pages if last minute changes are necessary.

- Create a cover page with the topic of your presentation, contact information, your company's logo and the date and location of the presentation. Consider using full colour for the cover page.
- Attach your business card to the handout package.
- Have extra copies of the handout package prepared in case there are unexpected guests.

Rehearse, Rehearse, Rehearse

Rehearsals are vital for ensuring a smooth presentation. They are an opportunity for becoming more comfortable with what you want to say and how you want to say it. Make sure you set aside sufficient time to walk through your presentation. Ask colleagues to sit in and give you constructive feedback. In particular, ask them to watch for mannerisms, movements and any bad habits that could detract from your message.

Remember, rehearsals are just that. They are a chance to practice, improve and polish your presentation.

Prepare for the question and answer part of your presentation. It is important to be able to handle questions

effectively. Anticipate the questions that your audience may ask and prepare answers. If colleagues are watching a rehearsal, ask them to raise questions — tough ones.

Arrive Early

Plan to arrive at least an hour before the presentation starts. It helps to have a checklist of the last minute details you will need to confirm.

- Give the presentation room a final once-over to ensure everything is in place — the set up of the room and equipment.
- Review how the equipment functions and where all the buttons and switches are located.
- Make sure your handouts and other supplies such as paper and pens are set out on a table or on the chairs.
- Have a back-up copy of your PowerPoint or other presentation aids. It is also a good idea to have hard copies of your slides or overheads in the event you have technical difficulties.
- Determine the location of washrooms, the exits and the arrangements for coffee breaks or lunch.
- Check the sight lines for your projection equipment, flip charts or whiteboard. Walk around the room to ensure everyone in the audience has a clear view.

- If you are using a sound system, ensure that it is well balanced and can be heard in all parts of the room. If you are using a wireless microphone, make sure back-up batteries are available.

The Presentation

You have rehearsed the material, prepared attractive visual aids, checked the slides and the equipment and are ready for any questions that your audience may raise. If your planning, preparation and practice have been thorough, the odds are that your presentation will be a hit and your goals will be achieved.

Planning Ahead

First impressions count. You often do not get a second chance. Given the importance of business presentations, look into presentation training programs that could help you and your employees improve their public speaking skills. The investment may be well worth it. The Internet is also a good source for many articles offering tips and techniques for planning and delivering successful presentations. □

MONEYSAVER

Keeping Charged

With our increasing reliance on mobile devices — laptops, PDAs, cell phones and the like — battery life is an important adjunct to a productive day.

There is no one ideal battery that can satisfy all possible requirements equally. The various battery technologies have been developed to optimize certain parameters for specific uses. It helps to be knowledgeable about the various kinds of batteries on the market so you can choose the optimal battery for each application and take steps to maximize its life.



Buying the Right Battery

Alkaline batteries are, and will probably remain, the workhorse of electronic devices because they have a relatively long life, are inexpensive and can be stored for up to five years. They are best for low-drain devices such as pagers and radios and medium-drain devices such as compact disc players and electronic games. Rechargeable alkaline batteries are more cost efficient though and more importantly, are better for the environment since they can be recharged and reused many times before they must be discarded. However, you should note that the capacity is diminished with each recharge and they can only be recharged 12 to 25 times.

Nickel-cadmium batteries (NiCd or NiCad) are increasingly popular because they charge quickly and, if properly maintained, can be recharged over 1,000 times. NiCds keep a near constant voltage throughout their service life. The batteries should be completely discharged before they are recharged or they could develop “memory” problems. This means that the battery remembers the point in its charge cycle where recharging began and may have a sudden drop in voltage at that point when reused.

Nickel metal hydride batteries (Ni-MH) are often the consumer battery of choice as they offer about twice the capacity than NiCds, with no toxic chemicals. Manufacturers maintain that Ni-MH cells can last up to 40% longer than the same size NiCd batteries and have a life-span of up to 600 cycles. This makes them useful for high-energy devices such as notebook PCs, cellular phones, and camcorders.

Lithium-ion batteries are small and have a high output voltage. They are used in most PDAs as well as mobile phones and notebook PCs. Lithium

batteries are also useful in that they do not have to be fully discharged before they are charged again. Powerful, with quick recovery time, these batteries are also good choices for extremely high-drain devices like cameras where performance is a plus.

Silver oxide batteries are noted for their high energy density and power density. As the silver electrode is expensive, their use is generally limited to lightweight electronic equipment.

Maximizing Battery Life and Minimizing Replacements

Like most, you have likely experienced a dead battery at the worst possible time. The first line of defense is to carry an extra battery or take the battery recharger with you when you are travelling out of town. There are also ways you can maximize battery life and minimize the number of times you need to purchase replacements:

- Read the instructions for the device before installing batteries. Be sure to insert the batteries correctly.
- Use only the type of battery that is recommended by the manufacturer of the device.
- If you need a replacement battery for a device and have lost your manual, check the manufacturer’s website or ask the retailer.
- Extend the shelf life of your batteries by storing them in a cool, dark place but not in a refrigerator or freezer. Let them come to room temperature before using them.
- The battery will degrade rapidly if it is exposed to temperatures higher than those recommended by the manufacturer. Store batteries as far away from heat sources as possible.
- Store batteries in the original packaging as the manufacturer designs it to ensure the maximum

shelf life for the batteries. Batteries which have been in storage should be charged overnight before using.

- Use a marking pen to write the day and year that you purchased it on the battery casing. Also, keep track of the number of times the battery has been recharged. But be careful not to write on or near the battery terminals.
- For devices requiring several batteries, do not mix batteries from different manufacturers. Small differences between brands can reduce the average useful life of all the batteries.
- When storing your mobile devices for long periods (e.g., more than a month), remove the batteries. This can prevent possible battery leakage which could damage the device. This also allows you to use the batteries for other devices while they are still fresh.
- When you purchase a new device, look for one that minimizes battery use. Be wary of unnecessary features that might require additional battery power. Some electronic devices also give you the option to run at a lower power setting so that you can extend battery life.

Be Kind to the Environment

All battery components, when discarded, contribute to the pollution of the environment. Batteries contain heavy metals, such as silver, nickel, cadmium, lead, mercury, lithium, manganese and zinc, which can be toxic to plants, animals and humans.

Dispose of batteries properly. Many electronic retailers will take batteries for proper disposal or recycling. You can also take them to special battery collection points in your area. □

BUSINESS MATTERS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

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BUSINESS MATTERS is prepared bimonthly by The Canadian Institute of Chartered Accountants for the clients of its members.

Richard Fulcher, CA – Author; Kathleen Aldridge, B.A., Dip. Ed. – CICA Editor.